Bid Proposal Program Review

Report to the Ministry of Forests

Submitted to:

Minister of Forests
Parliament Buildings
Victoria, BC

Submitted by:

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April 16, 1992

The Honourable Dan Miller
Minister of Forests
Parliament Buildings
Victoria, BC

Dear Mr. Miller:

Enclosed please find my independent review of the Section 16.1 Bid Proposal Program as commissioned by the Ministry of Forests in October of 1991.

Yours truly,

R.M. Jeffery, R.P.F.

92-05891/

ACKNOWLEDGEMENTS

The intent of this review is to provide an independent assessment of the Section 16.1 Bid Proposal Program. Such an assessment could not have been achieved without the assistance and contributions from a great number of people including trade associations, major licensees, Ministry of Forests personnel, academics and individuals. I sincerely thank these people for their time, insight and information. I would like to extend a grateful thank you to all Timber Sale Licensees who took the time to complete the survey, those who made written and oral contributions and those who toured me through their facilities and operations.

Thank you to L. Cottle for assisting in the compilation of the survey results.

EXECUTIVE SUMMARY

- During the three years of its implementation the Bid Proposal Program has successfully achieved the policy goals identified for the program by the government. The Bid Proposal Program has: promoted and encouraged economically viable operations in the independent value-added sector; created structural, product and market diversity in the forest products sector of the provincial economy; reduced B.C.'s reliance on commodity products; created or maintained regional employment; and fostered community and social stability.

- This review strongly advocates that the future success of the forest products industry and the health of the provincial economy will ultimately rely on the co-evolution of the primary sawmill sector working cooperatively with the independent value-added sector. In the context of co-evolution, the emergence and establishment of an independent, secondary value-added products industry is essential in providing depth and breadth to the commodity dominated forest products export sector while providing domestic demand for product, often at a price premium, for the primary sawmill sector. This co-evolutionary process will foster innovation, upgrading and competition essential for the forest products industry to maintain its competitive position in world markets. The Bid Proposal Program has been a catalyst in starting this co-evolutionary process.

- Many people believe that the rate of harvest can be reduced and that job loss can be avoided by creating more new jobs in the employment intensive value-added wood products industry. This argument fails to recognize that only 10-20% of the volume cut from a stand of timber is suitable for lumber remanufacture (percentage varies from region to region). Therefore, reductions in timber volume available to primary breakdown mills will result in volume reductions available to the value-added sector.

EXECUTIVE SUMMARY

- With respect to raw material supply the Bid Proposal Licensees overwhelmingly reported that the program had enhanced or improved their ability to secure raw material supply. Improved access to raw materials has had beneficial impacts in financing, planning and marketing while providing operational and employment stability. The program has succeeded in opening new dialogue between the primary sawmill industry and the independent value-added producers and has encouraged stronger working relationships between the two sectors.

- The Bid Proposal Program policy has been successful in creating regional economic development, however, this success has had more to do with the value-added firm's consideration of factors like access to raw material supplies, transportation routes and customer perception than with the policy itself. The policy has dovetailed with natural economic development trends.

- The Bid Proposal Program has been successful in creating new investment and manufacturing capacity in the independent value-added sector.

- The Bid Proposal Program has had a positive effect on financing and cash flow for TSL holders. A secured raw material supply is seen as a factor in increasing the operational viability of most value-added firms by banks, private investors and customers in the market. Government assistance and funding for Bid Proposal firms is generally low.

- The Bid Proposal Program has been successful in creating new employment opportunities, however, in some cases the number of new employees has fallen short of proposed levels.

EXECUTIVE SUMMARY

- For Bid Proposal Licensees the program has provided a more stable environment in which they could afford to undertake costly in-house training, thereby, creating a stable, highly motivated and trained workforce.

- Bid Proposal Sales have led to diversification in the number of products, the range of product types and volumes. The majority of licensees could both produce and sell more of their current product lines but are constrained by raw material supply and/or plant capacity. In very few cases was market demand cited as a limitation to increased production. Survey responses intuitively revealed that the independent value-added producer lacked extensive market knowledge and marketing expertise.

- Bid Proposal firms indicated that the program has increased their global market potential because of the increased operation stability provided by a secure raw material base. Firms have employed new marketing strategies and entered new markets as a result of the program.

- One of the concerns with the Bid Proposal Program was that remanufacturers with little or no harvesting expertise were placed in a position of being responsible for harvest activities. The survey results indicate that harvesting responsibilities were not causing undue problems. However, this result is somewhat inconclusive given that almost one-half of the firms surveyed stated that they preferred not to be involved in harvesting because it interfered with plant operations and development of new products and markets.

- The administrative burden of the Bid Proposal Program in terms of the equivalent volume requirement and Ministry paperwork was not found to be burdensome by the majority of Bid Proposal Licensees.

EXECUTIVE SUMMARY

- The Bid Proposal Program was viewed by the majority of program participants as a better short to medium term policy alternative than an open and competitive timber or log market given the current industry structure and tenure system. Market dominance by the larger major licensees, unequitable tenure arrangements and the relative newness of the value-added sector were the main reasons stated for the preference for an administrative policy approach over the market approach. Comments indicated a recognition that over the longer run a market based system would be less cumbersome and more efficient at allocating raw materials.

Recommendations

- With approximately 300-400 existing value-added firms not holding Bid Proposal TSL's and in light of the positive impact of the Bid Proposal Program it seems appropriate that the Ministry of Forests should undertake a close analysis of timber requirements of the independent value-added sector with the objective of finding more volume. This recommendation is supported by consistent and repeated calls for more volume by current Bid Proposal Licensees.

- One mechanism by which the Ministry of Forests can meet the challenge of sustained development of the value-added sector is through strategic planning. A strategic planning initiative is required to define the government's economic development goals and objectives for the independent value-added sector. A strategic approach will be beneficial for better identification and development of TSLs which are more appropriate to the needs of the remanufacturer.

EXECUTIVE SUMMARY

Recommendations (con't)

- On the basis of findings in this review it is recommended that second generation Bid Proposal Sales be used to take care of existing value-added firms first, especially those in well established locational clusters, and provide opportunities for new firms second. This approach will require the development of a strategic plan for the sector to provide a context for the development and award of new sales. Also required will be an audit and performance assessment strategy to determine those firms who have lived up to the commitments of their proposal and licence requirements. Those licensees who have performed have met the goals and objectives of the Crown and should be given recognition of this during re-award of Bid Proposal volume. Furthermore, the evaluation procedure for second generation sales should be modified beyond the changes implemented in May 1991 to incorporate past performance and the strategic needs of the Province (as outlined in the strategic plan for the value-added sector).

- Strategic planning complete with a revised evaluation process does not imply direct award of TSL's or quota. Rather, it means tailoring Bid Proposal Sales to meet identified needs in the independent value-added sector within the context of provincial economic and social objectives.

- It was repeatedly suggested during this review that the Ministry of Forests did not have the capability to evaluate and technically review Bid proposal applications. This review concurs with this assertion and recommends that the Ministry of Forests include qualified professionals to assist in the evaluation of the technical portions of each Bid Proposal.

EXECUTIVE SUMMARY

Recommendations (con't)

- Most of the small number of failures within the program can be directly attributed to poor financial position of the Bid Proposal Licensee. The current Ministry of Forests evaluation process does not adequately assess the financial positions of potential licensees. A more rigorous examination of the financial elements of future proposals is recommended for inclusion in the evaluation process.

- It is suggested that the long-term health of a solid wood products industry, including the value-added sector, will require that the current administrative system of apportioning the timber resource be incrementally changed to provide a transition to a market approach. Such an approach must blend both administrative and market mechanisms to supply raw material supplies, to meet the social objectives of employment and community stability and to continue to provide incentives to drive productivity and innovation. The majority of Bid Proposal Licensees agreed that they would prefer to operate in a competitive environment rather than the convoluted system of timber harvesting and supply agreements presently offered under the Bid Proposal Program. However, the majority see that Section 16.1 as an essential transitional mechanism to assist them in their enterprises. A rough approximation of the timeframe envisioned by licensees to provide a transition to a market system was 10 - 20 years.

PREFACE

The forest industry is the single largest sector in the British Columbia economy and is essential in providing the economic base from which our province derives its high standard of living. In the 1990's the industry is being challenged by a complex range of problems and issues. One of the largest of these issues is the challenge of upgrading manufacturing processes to maintain B.C.'s global competitive position in the face of emerging lower cost producers, more sophisticated consumers and increasing pressure to operate in an environmentally sustainable manner. The production of higher value products is often cited as one strategy that can be employed to meet this challenge.

In 1988 the Ministry of Forests introduced the Section 16.1 Bid Proposal Sales Program as a vehicle to encourage and promote the production of specialty and high value products within the forest sector. The program was introduced under the auspices of the Small Business Forest Enterprise Program (SBFEP) in order to provide opportunities for independent and smaller firms who do not own or control substantial timber rights and to further diversify the forest products sector. In establishing the Bid Proposal Program the Ministry of Forests is pursuing its legislative mandate, under Sections 4(b) and 4(d) of the Ministry of Forests Act, to manage for the immediate and long-term economic and social benefits of the Province and to encourage a world-competitive timber processing industry.

The economic and social benefits, both stated and unstated, for the Bid Proposal Program are:

- to promote and encourage the economically viable production of higher value and specialty products;
- to diversify the industry by providing opportunity for independent and smaller firms to reduce B.C.'s reliance on markets for primary products;
- to award licences through competition;
- to create and maintain regional employment;
- to foster community and social stability; and
- to provide a greater return on the Province's forest resource.

PREFACE

The Terms of Reference of this review are to report on the effectiveness of the Bid Proposal Program in meeting the needs of the value-added wood products manufacturer and report on how the program is meeting the goals and objectives of the government. There are three critical elements of this review. First, it is an independent review and as such will report on the issues in an unbiased manner. Second, the review relies heavily on the experiences of Timber Sale Licence holders within the Bid Proposal Program and will be in some respects a "report card" to the Ministry of Forests on the effectiveness of its public policy. And third, the review will recommend ways and means of improving the program.

The value-added industry is regionally and sectorally complex and closely inter-related with the primary sector making the scope of this review quite broad. The timeframe for the review limited the detail of analysis, however, it is hoped that the report will provide government with positive direction and will silence some of the unjustified criticism of the Bid Proposal Program.

NB: The terms value-added producer, secondary manufacturer, specialty producer and remanufacturer describe firms eligible to enter the Bid Proposal Program. The term independent value-added producer has been used in this report to describe the array of different firms involved in remanufacturing and specialty wood products production.

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INTRODUCTION AND BACKGROUND

Review Purpose and Scope

This review was initiated by the Ministry of Forests, on September 15, 1991. The two objectives of the review were to:

- report on the effectiveness of the Section 16.1 Bid Proposal Sale Program in meeting the needs of the value-added wood products manufacturer; and

- comment on the effectiveness of the program in meeting the goals and objectives of the government.

The review was not intended to revisit policy questions which were addressed by the Bid Proposal Committee and the Small Business Forest Enterprise Program Review of Mr. D. Gillespie. (copies of these reports were released publicly in January, 1991 and are available from the Ministry of Forests). However, overlap into these policy issues was unavoidable as many of these same issues continue to be unresolved.

There are three critical elements of the review. First, the terms of reference provided that the review would be independent. This independence was necessary to adequately address outstanding issues in an unbiased manner.

Secondly, the review was designed to reflect the experiences of the participants in the program (Section 16.1 Timber Sale Licensees). The final report was to be a "report card" to the government on the effectiveness of its public policy.

And third, the review was to comment on current policy based on the information collected from Bid Proposal Licensees. Comments were to focus on recommending to the Ministry of Forests ways and means of improving the program to benefit the long-term viability of the independent value-added solid wood sector.

This report will provide input to the new government on the current value-added policy as well as providing direction for the shape of future policies and forest sector strategic planning initiatives.

INTRODUCTION AND BACKGROUND (con't)

Review Process

The review process was conducted in six key phases:

1. Overview of Bid Proposal Program - The Ministry of Forests provided historical overview information in summary form for each of the Timber Sale Licences awarded. This information included;

   - contact person
   - sale volume
   - sale location
   - sale volume
   - product mix
   - address information
   - licensee location
   - date of award
   - sale term
   - employment

2. Letter of Introduction - On October 31, 1991 a letter of introduction was sent to each Bid Proposal Program Licensee. This letter explained the scope, purpose and methodology of the review and requested cooperation in the review process. This letter was accompanied by a parallel letter from the Ministry of Forests also inviting cooperation;

3. Licensee Survey - Telephone contact was initiated by the consultant with each of the licensees in November and early December as a follow-up to the original letter of introduction. The purpose of the telephone contact was two-fold:

   - first, each licensee was asked if they would consent to participate in the survey and any questions on the intent of the review and survey were clarified; and

   - second, the licensees were interviewed to solicit their views and opinions on the utility of the Bid Proposal Program to their operation.

INTRODUCTION AND BACKGROUND (con't)

The survey was designed to extract information from each licensee across a range of topic areas. These topic areas included:

Inputs

- Fibre Supply
  - Type of Raw Material
  - Supply Arrangements
  - Annual Volume Requirements
  - Availability Before and After TSL award
  - TSL Term
- Logging Arrangements
- Timber Processing Facility
  - Impact on Planning, Stability and Operation
  - Expansion and Construction
- Employment
  - Impact on Employment Levels
  - Training
- Financing and Capitalization

Outputs

- Products
  - Type
  - Volume
  - Additional Volume
- Markets
  - Location
  - New Markets and Opportunities

INTRODUCTION AND BACKGROUND (con't)

Other

- Administrative Requirements
- Open Market
- Location
- Benefits/Advantages
- Disadvantages

Fifty-three of the 83 licensees returned surveys and these responses formed the basis for the Results Section. The following table indicates survey responses by Forest Region.

Survey Responses by Forest Region

Forest Region	No. of Surveys	Percent of Total
Kamloops	19	36
Vancouver	15	28
Prince George	7	13
Cariboo	5	9
Nelson	4	8
Prince Rupert	3	6

In addition, over 70 licensees were contacted by phone for their comments. These comments provide the basis for the Discussion Section.

4. Licensee Visits - In-depth interviews and a review of plant operations were completed in a series of visits to 10 plants. As much as was possible these visits attempted to capture the regional and sectoral characteristics of the independent value-added sector. These visits highlighted and reinforced the information garnered through the survey and interview process. Regional Ministry of Forests staff were also interviewed as part of this phase of the review;

INTRODUCTION AND BACKGROUND (con't)

5. Other Interviews - A series of interviews were held with trade associations, other remanufacturers, consultants, members of the UBC Faculty of Forestry and industry to provide different perspectives and feedback on emerging common themes. While this process was not exhaustive it provided further information sources from which to analyze and evaluate the program; and

6. Literature Review - A review of appropriate literature from British Columbia and adjacent jurisdictions was undertaken. This review included articles and reports from Universities, consultants, industry, trade associations and government. Both the Bid Proposal Committee Report and the SBFEP Review of Mr. D. Gillespie were referenced.

Throughout the six phases of the project the Ministry of Forests personnel responded to all information requests in an efficient and timely manner.

History of the Bid Proposal Program

Section 16.1 was put into the Forest Act in July, 1988. The government's intent was to use these timber sales to encourage the remanufacture of lumber and the production of specialty products by firms which are registered in the SBFEP. Relevant sections of the Forest Act enabling implementation and administration of the program include Sections 1, 8, 16, 16.1, 17, 18, 61.1 and 87.1. Regulations applicable to the program are B.C. Reg 552/78 amended by B.C. Reg 328/89 and B.C. Reg 265/88 amended by B.C. Reg 179/91. The Ministry's policies and general procedures are outlined in the Timber Harvesting Branch policy manual.

Section 16.1 of the Forest Act identifies five factors for consideration in evaluating Bid Proposals two of which are pre-eminent in terms of policy direction and development. Section 16.1 3(a) provides for consideration of creating or maintaining employment opportunities and other social benefits and gives rise to the policy issues of local/regional employment

INTRODUCTION AND BACKGROUND (con't)

and the corollary social benefits. In policy, the Ministry has used wages and salaries as a surrogate to measure employment and social benefits and these are accounted for in the evaluation process by estimating the value-added for each proposal. Local employment continues to be an issue in the program. Section 16.1 3(c) directs the Ministry to further the development objectives of the Crown. These objectives include: expansion of secondary and tertiary manufacturing of solid wood products; diversification and upgrading of the forest sector; and reduction of B.C.'s reliance on markets for primary products. In policy, the Ministry uses the degree of further manufacturing proposed in a Bid Proposal as the measure to achieving these development objectives.

In the Fall of 1989, the Minister of Forests established a 14 member committee made up of representatives of major licensees, remanufacturers, loggers and government to examine and report on the Bid Proposal Sales Program. The committee met 10 times and submitted their findings to the Minister of Forests in January of 1991. The committee made over two dozen recommendations, however, there was very little consensus on these recommendations and the report carried majority and minority views and positions on most issues.

This lack of consensus had a carry-over effect on the SBFEP Review of Mr. D. Gillespie. Despite a Terms of Reference that excluded the policies and procedures of the Bid Proposal Program Mr. Gillespie reported that "despite that exclusion and because so many of the submissions addressed the Bid Proposal question I believe it is worthwhile that this review summarize some of those concerns". The review was released for public comment in February of 1991 and contained comments on 10 main areas of concern within the Bid Proposal Program.

Current Status

The Ministry of Forests began implementation and administration of the program in 1988 awarding the first sale in November, 1988. The most recent information (January, 1992) defines the current status of the program as:

INTRODUCTION AND BACKGROUND (con't)

Total No. of Licences awarded:	113
No. of awarded licences cancelled:	7
No. of sales advertised:	101 (10 sales were split into 22 sales)
Total volume in active (106) licences:	11 100 172 m^3
Average term (106 licences):	4.9 years
Employment/investment proposed (106 licences):	Employment: new - 1967 maintained - 2731 Investment: $92.2 million
Supply/Demand:	101 sales advertised; 412 applications received
No. of firms awarded sales (106 licences):	88

One of the most revealing statistics in this status report is the intense interest in the program - over 400 applications have been made for 101 advertised sales. This reflects a basic policy and operational dilemma in B.C. in that available timber supplies are insufficient to satisfy the current demand and capacity of the forest products industry. This fact was reflected in discussions with remanufacturers who, almost without exception, assert that more volume is required for the independent value-added solid wood sector. Given the high degree of discussion around timber harvesting rights and society's changing values, as embodied in reports such as the Forest Resources Commission, the Ministry of Forests will be required to be extremely judicious on how it apportions timber rights in the future to meet society's needs and expectations. The value-added sector and the economic and social benefits it provides will require due consideration whenever timber is reapportioned.

INTRODUCTION AND BACKGROUND (con't)

The independent value-added sector is very diverse in terms of the products produced, the type of raw material used in production facilities and the markets in which products are sold. Product types defy complete enumeration, but include remanufactured lumber, doors, windows, window frames, mouldings, cutstock, furniture, furniture components, specialty plywood, fencing, pallet stock and log homes to name a few.

Some remanufacturers have sawmilling capacity while others rely on custom processors, category 2 sawmills and primary producers to secure rough lumber as feedstock for further manufacture. Log home builders rely on specific log grades. How the value-added sector obtains its raw material supply remains a central question in the development of a sector that is in its infancy.

Markets are as diverse as the product range with many value-added producers filling small niche markets throughout the world. The largest markets for B.C. value-added products are currently B.C., Canada, Japan and other Pacific Rim countries, U.S.A., and Europe.

In the historical development of the value-added sector three regions have emerged as centres for remanufacturing activity - the lower mainland/Vancouver Island, the Okanagan Valley and Prince George. In addition a traditional log home building industry has developed in the Cariboo and Kamloops regions (especially around 100 Mile House). It was beyond the scope of this study to determine why this natural evolution has occurred, however, access to raw material supplies and a suitable labour force as well as transportation links can be presumed as being strong influencing factors. The Bid Proposal Program has provided incentive for new firms to build in locations outside of these traditional areas. As well, the program has provided raw material supplies for existing and new firms in the three traditional centres of remanufacturing.

RESULTS

This section presents the results of the Bid Proposal Program survey. Of the 83 total participants in the program, over 70 were contacted by phone and 53 (or 76%) completed the survey. Of the 13 firms not included in the survey; four were Category 2 sawmills, five were not yet in business or going out of business and four did not wish to take part in the review. Survey respondents answered questions relating to 11 different topics: location, fibre supply, logging arrangements, timber processing facilities, employment, financing and capitalization, products, markets, administrative requirements, open markets, benefits/advantages and disadvantages of the program. Under each topic, a number of issues were examined by asking participants to respond to yes/no questions and/or to provide explanations and additional comments.

Appropriate numbers and/or percentages, together with a summary of relevant comments reflecting the survey responses, are presented issue by issue within their respective subsection. Percentages are straight calculations and have not been tested for statistical significance however, clear trends were indicated in the responses for most questions. Any evidential differences in survey responses between regions are pointed out in the appropriate subsection.

Location

One of the controversial issues in the Bid Proposal Program is creation of local economic activity and employment opportunities and this section of the survey probed the reasons for firm location. The results indicate that over 90% of Bid Proposal Sales are processed within the boundaries of the local Forest District and/or Region. This indicates the Bid Proposal Program policy has been successful in creating regional economic development. However, this success has more to do with the value-added firm's consideration of factors like access to raw material supplies, transportation routes and customer perception than with the policy itself. The policy has dovetailed with natural economic development trends.

The survey results indicate that Bid Proposal Sales are providing local and regional employment and economic activity from timber supplies within the same Forest District and/or Region. Sixty one percent of all

RESULTS

Bid Proposal Sales were located in the same Forest District as the value-added facility; 39% were located in different Forest Districts and only four sales (7%) were located in Forest Regions different from the location of the value-added facility.

Regarding these four out-of-region sales, the following was observed: in one case, though the value-added facility was not in the same Forest Region, there was a joint venture with a local (to the sale) business. In another case, the value-added company required a very specific wood material not available locally. In the third case, the TSL was in an adjacent Forest District and Region. In the fourth case, the firm was involved primarily in overseas export and choose its location for transportation reasons.

The majority (85%) of survey respondents indicated that their plant location was suitable in terms of access to raw materials. Only six percent responded negatively, and nine percent rated their access as somewhere between poor and good. Good highway/road access to timber and proximity to major sawmills or suppliers were noted as positive evidence; poor access and over-allocation of local timber supplies were presented as negative evidence.

It was observed that this question of "suitable access to raw materials" was interpreted differently by different firms. For example, while one respondent from the Prince Rupert Forest District indicated that access was not suitable due to the fact that it was a "long distance [of 75 km] to the wood", several others from more southerly locations indicated that access was suitable even though the distance was 80 - 100 km from their facility. This reflects regional differences in logging techniques relative to physical factors such as terrain, infrastructures, etc.

RESULTS

Over three quarters (79%) of the respondents felt that their location was suitable for access to markets. Thirteen percent answered that their access was not good; eight percent were undecided. Two aspects of market accessibility surfaced through the participants' comments:

- Transport of products to the markets was the largest market access issue. There was common reference to good truck routes, good freight rates, the fact that transportation within B.C. is almost as expensive as international transport, and high container costs. Generally, those firms located further from the main domestic markets (predictably) indicated high transport costs. But, as one interior B.C. respondent noted "given that high quality raw material is available locally, the transport costs to port for export products is not significant"; and

- Location of the plant was used as a marketing tool in many cases. For example, several Cariboo and Kamloops Forest Region log structure builders pointed out that their area was known for a high quality log, thus, their value-added facility was located suitably in terms of access to markets due to customer perception.

Many reasons were provided for choice of plant location. The predominant themes here were the accessibility to raw materials (both in terms of quality and quantity) and the accessibility of labour. As one participant put it, "[a] combination of high quality labour force and raw material access" was the reason for his firm's location. Another important reason given was that the location was home to plant owners.

Other aspects included: suitable land available (in terms of affordability and operational suitability); market access; suitable weather for air drying lumber (Kamloops Forest Region); existing plant conversion; access to primary breakdown supplier or lumber exchange with primary mill possible; and overhead costs lower (interior) and customer-related reasons (product from that region preferred); and customer visitor access.

RESULTS

Fibre Supply

With respect to raw material supply the survey results overwhelmingly reported that the Bid Proposal Program had enhanced or improved the independent value-added sectors' ability to secure raw material supply. Improved access to raw materials has had beneficial impacts in financing, planning and marketing while providing operational and employment stability. The program has succeeded in opening new dialogue between the primary sawmill industry and the independent value-added sector and has encouraged stronger working relationships between the two sectors. Despite this success the independent value-added sector asserts they need more volume and longer term timber sale licences.

Bid Proposal Licensees have a wide array of raw material requirements. Two thirds of the participants require one of two types of raw material: either logs (one third) or a combination of cants and lumber (one third). The remaining third use a variety of combinations of raw material: logs, cants and lumber; logs and cants; logs and lumber; and other resources such as poles and plywood.

The licensees had a wide range of methods of acquiring raw material supply previous to the award of the TSL's. The most common "previous" method of acquiring raw material mentioned by participants was through the open market. Other methods mentioned frequently were in approximate order of importance; Category II sales, contract with local mill(s), arrangement with major licensees, private land and Category I sales. Additional miscellaneous practices included procuring material from independent loggers, imports, salvaging and even beachcombing. All licensees reported having problems in acquiring raw material supplies in adequate volumes.

When asked if this "previous" supply was the right type, an equal number of the participants answered "yes" versus "no" (37% each). Twenty six percent answered "other" citing that their indecision was that, for example, while the raw material was the right type the

RESULTS

quantities were insufficient. Indeed, a large number of participants, regardless of how they responded to the question, commented that the availability of wood volume was always a problem.

Those who answered that the material was not the right type gave the following reasons: poor quality; wrong sizes (not metric); wrong grades and species (lack of log sorting); too expensive; inconsistent grades, sizes, volumes, prices and delivery; and limited high quality grades.

Seventy percent of these participants believed that the right supply for their value-added process did exist but they were unable to access it. A frequent comment was that the major forest companies would not sell any fibre as long as they needed it to operate their plants and would only trade a portion through a log exchange. The competition for wood fibre, especially high quality logs, meant an expensive, limited, and unstable supply of raw material.

The remaining thirty percent stated that they felt the right supply did not exist. They were compromising by using a less-than-perfect size, grade, etc. There appeared to be a regional difference between the Cariboo and Nelson Forest Regions, and the Kamloops and Vancouver Forest Regions. All of the respondents in the former two regions said that the supply needed for their value-added facility did exist, whereas approximately half the respondents in the later two regions believed that it did not exist.

Approximately half the participants now get their raw material supply through either a log/log or log/lumber trade agreement with a major forest company. The next more important methods appeared to be use of logs from the sale directly followed by open market purchases. A number of participants mentioned that they used a combination of these two practices - they used the volume from the sale that met their requirements, marketed the unusable portion and used this revenue to purchase suitable material.

RESULTS

Over half of the respondents (61%) felt that the post-award supply source was now the right type of raw material they required. Only 11% indicated that it was still not the right supply. A remaining 28% stated that the present supply of raw material is partially the right type but problems still exist. The comments in this regard included: limited supply, inconsistent quality, not up to grade and species sort yet, high price and difficulties in getting cooperation on the type of log required in trade agreements.

Those participants who responded that the "present" supply was still not the right material were asked if they felt the right material did exist, and, if so, why they could not access it. A common theme among these replies was that the major licensees were reluctant to modify their present methods in order to provide the specific grades, species and special dimensions required by the Bid Proposal holder. Recognizing that, as one respondent stated "the quantity we need is so small to a large operator that our special needs are not profitable to them" and that "major primary manufacturers are reluctant to modify their sawmill to saw special metric sizes for lack of return on their investment". Several participants noted that a longer term agreement with a major licensee was needed before the major would agree to modify their mill.

Bid Proposal Licensees were asked what percent of their material requirements were supplied by the Bid Proposal TSL(s). They were also asked whether the term of their sale was long enough.

Sixty percent of the participants responded that their TSL volume was insufficient to meet their needs. For these firms the percentage of plant capacity provided by the Bid Proposal TSL's ranged up to 80%. The average percentage was approximately 35% of requirement. Thirty one percent said that their TSL volume was sufficient. Nine percent answered "other" to this question and their comments generally stated that the volume was sufficient now during recessionary times but that they had the capacity for increased production with more volume at a later date.

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Fifty one percent of respondents stated that the term of their Bid Proposal sale was not sufficient; they generally indicated that they would prefer a term of 7 - 10 years as it would match financing better. Thirty three percent of the participants were satisfied with the length of the term; the remaining 16% did not state a preference.

A common theme among the comments from those participants who indicated the need for a longer term sale was the importance a long term raw material supply plays in capital investment and expansion, and consumer confidence. As one participant stated: "to secure market demand, a long term fibre commitment is needed". Another aspect that a number of respondents pointed out was that the sale term was too long for the size of the sale, but too short for long term planning. Several other people commented that they would prefer control over the amount to be cut each year so that there would be economic flexibility with market fluctuations.

The final issue examined under fibre supply was whether or not the award of standing timber had enhanced or improved the participant's ability to secure a raw material supply. The vast majority (89%) of respondents felt that the Bid Proposal TSL had improved their ability to secure a raw material supply. Only seven percent answered "no" and four percent "other". Those that answered "no" said that they were still unable to fulfil their material requirements in terms of logs (log home logs, shortage of cedar) and selected grades of lumber (Prince Rupert firm). One firm was forced to close on occasion due to shortage of raw material even though they had plenty of orders. Having to compete for supply (with new or expanded firms who were also awarded a TSL) has had a detrimental effect on at least one company. There were a large number of positive comments from the participants in response to this question. The basic theme of these comments was that the Bid Proposal Sale timber gave them a secure wood supply and thus stability. Many participants noted that "the availability of the timber to be traded to the major licensees has provided the leverage necessary to induce forest companies to supply ...[raw material, without which they] would have no stable or secure ... supply". The "bid proposal timber which can be

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offered to a supplier to improve or replace existing volume sometimes will determine the availability of raw material. Willingness to pay a premium over market price will not guarantee supply of raw material". Having "something to offer [ie timber] has encouraged the majors to find [for example] shop grade lumber".

A number of participants pointed out that the Bid Proposal "encourages stronger working relationships between participants" and that "quota holders [were] more willing to talk to value-added people not only for timber but also for brownie points with the Ministry of Forests". Other comments referred to improved cash flows, increased options, and better long term planning and financing. Several respondents said that the guaranteed supply enabled expansion rather than their previous situation in which they were unable to fill orders, or even that they "would have had to seriously curtail production" without the sale. As one person noted, "it [bid proposal timber] has allowed us to expand and grow without the pressure of competing for raw material and therefore having the price escalate on us".

Logging Arrangements

One of the concerns with the structure of the Bid Proposal Program was that remanufacturers with little or no harvesting expertise were placed in a position of being responsible for harvest activities. This situation had the potential to lead to poor logging practices as well as creating economic inefficiency in a firm's operation by redirecting time and resources to harvesting and away from the operation of the value-added facility. The survey results indicate that harvesting responsibilities were not causing undue problems and most firms (90%) were satisfied with their current harvest agreements. However, this result is somewhat inconclusive given that almost one-half (43%) of the firms surveyed stated that they preferred not to be involved in harvesting because it interfered with plant operation and development of new products and markets.

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Logging under the Bid Proposal Program was undertaken in a number of different ways. Almost half (49%) of the harvesting on the TSL's is carried out by contract logging companies. Eighteen and sixteen percent is conducted by forest product companies and joint-venture partners respectively. Only a small proportion of harvesting is carried out by the TSL holders themselves (11%), or by a combination of the aforementioned or other methods (6%).

A number of participants noted that their supply agreement with the major licensee was set up such that the major would do the logging. Some respondents who used contractors pointed out that supervision was required and that they had, in some cases, hired somebody to help oversee operations. Other firms used a combination whereby harvesting of the timber was contracted and custom sawing was done by a forest products company.

The vast majority (90%) of Bid Proposal Licensees were satisfied with their logging arrangements. They commented that: they were very happy with their contract logger; their partner was very accommodating and meeting their needs; and an experienced company, with expertise at all phases, was doing their logging. Dissatisfied participants expressed the desire for a more active role in harvesting to ensure quality control, different scheduling and to ensure that proper harvesting practices were carried out.

Overall, the respondents were split 57% - 43%, prefer/prefer not to be involved in timber harvesting activities. More specifically, coastal firms (ie. Vancouver Forest Region) showed a more definite preference to be involved (80%), whereas interior firms had: a less distinct preference be involved (Kamloops-67%); no preference (50%--Nelson and Prince Rupert); or preferred not to be involved (Cariboo-60% and Prince George-71%).

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Those who preferred to be involved pointed out that their involvement would allow direct control of the quality of their resource supply. As stated by one participant: "the value-added process has to start at the standing tree. Significant increase[s] in recovery and quality are most easily obtained by proper designation and recognition of fibre at its origin". Also apparent from the comments was the fact that participants believed "to be in control of raw material is worth the added responsibility" and that they "don't expect to receive the benefits without some responsibilities and obligations". Some even noted that they "actually enjoy [these] obligations and responsibilities".

Those who preferred not to be involved in timber harvesting activities said that they would prefer to concentrate completely on areas of their expertise: remanufacturing, and developing new products and markets. Respondents noted that they did not have staff or experience and would rather "leave timber harvesting to the professionals".

Timber Processing

The Bid Proposal Program has been beneficial to the independent value-added sector by providing operational stability in planning, training, budgeting, product development and marketing. The program has been successful in meeting government objectives by creating new investment and manufacturing capacity in the independent value-added sector.

Sixty-three percent of the Bid Proposal Licensees have met or exceeded the capital expansion they proposed and those failing to expand cited poor economic times or insufficient volume as the main reason for lack of expansion. Examined from the converse perspective almost 80% of the firms surveyed would not have expanded or would have been out of business had they not been successful in securing a Bid Proposal Licence.

RESULTS

In general the impact of the Bid Proposal TSL on planning and stability in the participating firms' operations has been largely beneficial. At least eighty percent of the respondents felt that the award had been beneficial for the operation of their firm in terms of: planning flow and availability of raw material (86%); weekly, monthly and yearly production targets (80%); and manpower, material and supply requirements (85%).

The majority of participants commented that the security of a known, dependable, steady wood supply was necessary for planning. As one participant noted, "scheduling and planning are the most difficult aspects of our business. The stability of a TSL, even for a portion of our overall needs, goes a long way to solving this problem." Respondents remarked on the importance of secure wood supply in: meeting production targets; forecasting budgets, cashflow and manpower; attracting and investing in skilled workers; increasing consumer confidence; developing new products and targeting new markets.

Participants who answered that the Bid Proposal Sale had not been beneficial to their firm in terms of planning and stability pointed out that they were "still at the mercy of the large companies" as their TSL supplied only a minor portion of their needs. Quite a number of people responded with a "qualified yes" as to whether or not the sale had been beneficial; they expressed that there was a need for larger volumes.

Overall, 64% of the respondents felt that the award of the TSL had provided long term stability to their operations. However, there were some regional differences: while approximately two thirds or more of the participants in Kamloops (63%) and Vancouver (73%) felt the award of sales improved stability, only 29% of the people in Prince George agreed. In the Cariboo, however, 100% of the respondents believed that there had been improvement. The comments were similar to those above, and additionally stressed improved customer satisfaction and the increased ability to develop marketing programs based on a secure fibre supply. Negative comments expressed that the sale had an insufficient supply, short term and wrong fibre supply.

RESULTS

Bid Proposal Licensees were queried as to whether or not the TSL had stimulated expansion in accordance with their proposal. The majority (71%) of participants said that their value-added facilities expanded as a result of the TSL. All the firms from the Cariboo and Nelson Forest Regions replied that their facilities had expanded whereas only 57% of firms in the Prince George Forest Region reported expansion. Comments justifying lack of expansion pointed out that the TSL was too small to justify increased investment, others noted that they were stabilized and would expand in the next few years.

Of those who had expanded, 87% said they had done so in accordance with their proposal. Participants cited that capital expenditure and employee commitments had been fulfilled. A number of people noted that they had exceeded their proposal especially with regard to employment commitments. Others mentioned that their proposals were only partially fulfilled.

Asked if their firm would have expanded its facility if they had not been successful in obtaining a TSL, an overall average of 77% replied "no". In the Nelson Forest Region, however, only 25% said that they would not have expanded. This low percent is the opposite of all other Forest Regions.

Of those who answered "no" (they would not have expanded), the overall theme of the comments spoke to the need for a secure fibre source to support investment and to ensure market confidence. Some commented that without this supply they may have been out of business by now.

Those respondents that believed they would have expanded with or without a TSL pointed out that one must improve in order to stay in business. However, they stated they probably would not have expanded as quickly, nor to the same extent as occurred under the program.

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Employment

The Bid Proposal Program has been successful in meeting the government's objective of creating new employment opportunities. However, in some cases the number of new employees has fallen short of proposed levels. Recessionary economic trends and mechanization are the two reasons most cited in cases where employment did not reach the expected level. In most cases increased employment is projected when we emerge from the current recession.

The program has provided a more stable environment in which Bid Proposal Licensees could afford to undertake costly in-house training. Almost all firms indicated that their personnel had no previous remanufacturing experience and therefore, needed extensive training.

When asked how the Bid Proposal TSL affected employment and whether this effect was consistent with that submitted in their proposal: 67% of responding firms indicated that employment has increased, 36% responded that employment levels stabilized; and 2% indicated employment dropped. A rough average of 10 to 15 jobs were created in those firms that increased employment. As commented upon, the increases or stabilization of employment occurred during a period of lumber industry slow-down.

Sixty seven percent of the respondents said that their employment levels were consistent with the number submitted in their proposal. At least seven firms indicated that their employment levels were "more" to "much more" than in their proposal. Slow present market conditions and insufficient wood supply were given as reasons for shortfalls in proposed employment. One operator mentioned that his employment levels were not consistent with his proposal because, in order to stay competitive, he had mechanized and thus had not created the number of jobs predicted.

Licensees were queried about the qualifications of personnel, training requirements, and the stability of the workforce. The aim was to look at whether or not the program is helping to create a trained workforce within this sector. A stable, highly motivated and trained workforce is emerging as a result of the Bid Proposal Program.

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The participants were asked whether they had been able to find qualified personnel to fill the new positions in their added-value facilities. There were some interpretation problems with this question. All firms provided in-house training and thus, answers tended to reflect the success the firm has had in training employees.

Those that responded in a positive manner commented, for example, that: they had no problems finding people who wish to work and be trained; they got workers who were laid off from other firms; and their profession was a very desirable profession. Those that responded negatively pointed to the unavoidable necessity for in-house training. A number of respondents emphasized that they expected to train people. Others noted that trained people of high calibre were not available due to the lack of training facilities in B.C. or Canada. Several people expressed a problem with bad attitude among workers, that "flexible-thinking" employees were needed.

The types of training provided by the value-added operators for their employees ranged from basic on-the-job training by experienced staff (the most commonly-mentioned method) to a two year apprenticeship program. Other methods of training mentioned in the survey include; on-going training for new high technology processors, seminars, training through a program with the BC Wood Specialty Group and hired consultants. Topics covered through training include; safety, quality standards, productivity, market knowledge and pride in workmanship.

Costs of training were estimated in various ways. Direct costs were estimated to range from approximately $2000/person to $4000/person. Other figures for costs ranged from $10,000 to $100,000 per year for the operation as a whole.

Some respondents made reference to the low productivity during the training period which resulted in doubling operating costs. While several responses pointed out the high expense of training, one person stated that he did not spend enough. A few people mentioned that the new employee bore part of the cost through low initial wages which then increased with increasing productivity and skill.

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Eighty-three percent of participants rated their workforce as stable. There appeared to be some regional differences: respondents from the Prince George Forest Region were less inclined (57%) to rate their workforce as stable. In general, value-added operators commented that they had: reliable employees with low to nil turnover; highly motivated and satisfied workers; and lots of job applications. Those people who rated their workforce as unstable cited poor current economic conditions which resulted in the movement of workers out of the area.

Financing and Capitalization

The Bid Proposal Program has had a positive effect on financing and cash flow for TSL holders. A secured raw material supply is seen as a factor in increasing the operational viability of most firms by banks, private investors and customers in the market. Government assistance and funding for Bid Proposal firms is low contrary to the opinions of many critics of the program.

Survey participants were asked to comment on whether the award of the TSL had improved capitalization and financing. The majority of responses indicated that the award of the sale improved both capitalization and cash flow conditions. Several people stressed the favourable view from financial institutions ("definitely helped confidence", "total support by financial institution", etc.). As stated by one individual, "financial institutions lend to operating facilities; no raw material, no operation" emphasizing the importance of the secure wood supply. Other comments which restated the importance of a secure wood supply included: that [a wood supply] was a prerequisite for a government loan; interested investors look at wood supply as primary concern; lender was much more confident in their ability to succeed; helped with long term customer concerns about continuity of finished product supply; and that the Bid Proposal had "provided [the] opportunity to commit production to filling larger orders towards full utilization of capacity, labour and market opportunity".

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There were only a few negative comments, of the same general theme, that the sale had not helped negotitaions with the bank. There were also several "neutral" responses: either the Bid Proposal holder had no need for increased capitalization (their volumes were too small or term too short) or that they had not yet made the effort.

Funding for capitalization came from government and private sources. The Bid Proposal holders were asked if they received any government assistance and if so, what was the relative percent provided by the government funds and by private investment. The province-wide response to this first question was that 85% of firms received no government assistance while 15% received some government funding. This differed by Forest Region. In the Vancouver and Cariboo Forests, there were no respondents with government assistance (ie. 100% "no"). In order by decreasing percent no answers were: Kamloops (83% "no), Nelson (75% "no"), Prince Rupert (67% "no") and Prince George (57% "no"). The relative percent provided by the government funds ranged from 15 to 50%. One example of funding ratio was: 50% government, 30% bank, 20% own capital. Several participants noted that they were "not interested" in any government "handout".

Products

Bid Proposal Sales have led to diversification in the number of products, the range of product types and volumes. Traditional product mix has changed through the program to integrate higher value products as well as the corresponding family of lower value fall down products. The majority of licensees could both produce and sell more of their current product lines but are constrained by raw material supply and/or plant capacity. In very few cases was market demand cited as a limitation to increased production. Survey responses intuitively revealed that the independent value-added producer lacked a great deal of market knowledge and marketing expertise.

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Survey results indicate that Bid Proposal Licensees produce an array of different products. With difficulty the products can be grouped into product categories. The following is a list of these product categories by proportion.

Value-Added Products by Product Category

Product Categories	Estimated Proportion
Interior Housing Components	21%
Industrial Products	18%
Cut Stock and Specialty Grades	12%
Decking and Siding	10%
Log Homes and Structures	9%
Furniture and Shelving	9%
Windows and Doors	9%
Plywood and Panelling	7%
Commodity Lumber	4%
Chopsticks	1%

The award of a TSL has changed the traditional product mix for many firms. While 61% of the participants as a whole felt that their traditional product mix had been changed this result varied widely between Forest Regions. In Prince George, Kamloops and Vancouver, the majority of the responses were positive and that product mix was changed (60%, 71% and 60% respectively). In the Cariboo, 40% of the companies felt they had changed their product mix. In Nelson, all four participating firms said their product mix was changed, whereas in Prince Rupert, none of the firms surveyed changed their product mix.

The vast majority of respondents with a changed product mix commented that the product list had expanded. This was due to: new product discovery through use of "waste" non-conventional stock, for example the use of "white wood" species for component parts; using new equipment to offer more variety of the same basic product; increasing

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the value-added component; new long term supply agreements for export markets; and adding new products to meet the changing market. Several participants noted that they were primary producers until the TSL award.

Comments among those participants who felt their product mix had not changed included: that they were already expanding at time of the Bid Proposal; that they had always done value-added and their markets were in place; that their facility was built for a specific line and only one product was planned (for example, chopsticks); and that they had expanded production volumes in their traditional mix.

Licensees were asked how much more volume they could produce on the basis of what they could sell, what products these would be, and where they would be sold. Participants were asked to estimate this additional volume, and comment on the products and their markets. The results of the volume estimates are presented by Forest Region.

Kamloops

Over half (60%) the firms believed they could produce more volume on the basis of what they could sell. How much more volume they could produce and sell ranged from 25% to 150% with an average of roughly 100% increase. One third of the respondents felt that they could not produce more partially due to production limitations (plant size) and partially due to selling/marketing limitations. One respondent noted that the volume he produces would actually decrease as it would be of higher value-added.

Vancouver

Approximately 90% said they could produce and sell more volume with a range of 10 to 400% and an average of 100%. One respondent stated it was unknown how much more could be produced as it depended on the market.

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Cariboo

Sixty percent of the respondents believed they could produce an average of 50% (range: 40% to 300%) more saleable volume. One firm did not want to "speculate" on demand and one firm did not answer.

Prince George

Eighty percent of the respondents felt they would be able to produce an average of double (range double to triple) the amount they were now producing based on what they could sell. One firm did not answer.

Nelson

Seventy five percent said they could increase production by an average of 75% (range 50% - 100%).

Prince Rupert

Thirty percent answered said they could triple their volume, however, this number is based on a very small sample size.

The majority of those who felt they could increase volume production indicated that the product mix would not change. A number of other respondents said that they would increase the variety of a similar product or increase the value-added to, for example, make finished furniture versus unfinished or edge glue products for Japan. Markets for these products would be in (listed in relative order of importance) North America, Japan, Europe (Germany, United Kingdom, Spain and Italy were mentioned specifically), Korea, Tahiti, Australia and the Middle East.

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Markets

The survey results in this section on markets reflected trends in increased product diversification noted in the previous section on products. Bid Proposal firms indicated that they market their products world-wide and their market potential has increased because of the increased operational stability provided by a secure raw material base. Firms have employed new marketing strategies and entered new markets as a result of the program. However, many licensees stated they have marketing problems most of which are related the small size of most firms. Many other marketing problems stated were common to all forest products exports.

Markets for the products produced by the Bid Proposal holders are both domestic and international. Firms indicated that they are shipping their products to destinations both within North America and overseas. In fact, only seven operators said that they did not export overseas. At least 12 firms sell most or all of their products in the overseas export markets. Product destinations, in order of relative decreasing importance include: Canada (local and out-of-province grouped together), Japan, United States, Europe (Germany, United Kingdom, Austria, Switzerland, Italy and Holland etc.), Taiwan, Australia, Korea, Hong Kong and New Zealand.

TSL holders were asked if they had entered new markets and if they had changed their marketing strategies as a result of the award of the Bid Proposal Sale. Overall, sixty one of respondents said that "yes" they had entered new markets. However, this varied considerably by region: the northern Forest Regions, Prince George (60%-no) and Prince Rupert (100%-no) indicated that they were not entering new markets to the same extent (or not at all) as the more southern regions. In response to whether or not they had changed their marketing strategies, again the southern Forest Regions showed a greater propensity for change as compared with the northern regions. Nelson (67%), Cariboo (60%), Vancouver (57%) and Kamloops (53%) all indicated their marketing strategies had changed, whereas all of the respondents from Prince George and Prince Rupert said they were unchanged.

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Comments relating to new market entry or changed marketing strategies were similar. The majority pointed to the importance of a secure wood supply which, in turn, provided greater stability to their operations in general. As one participant noted, "[a] stable supply [is the] key to world wide marketing; allows small company to compete globally". A number of references were made to the fact that holding a TSL meant a "resource to show customers, especially a new customer, [to] supply confidence and credibility with the customer" which would thus lead to new markets. Indeed, one participant pointed out that "Europeans only want to place long term orders". Other participants referred to new product lines and products with increased value-added products to service new markets.

A variety of the comments did refer specifically to new marketing strategies employed by the firms since the award of the TSL. While usually first referring to the increased stability due to the secure wood supply, these comments went on to point out their firm's new strategies. They include: longer term sales contracts, more aggressive marketing, using new means of distribution (new distributor for new product, new sales agent for various export countries), and marketing finished products direct to wholesalers.

Among those who had not changed their marketing strategies or entered new markets, a number pointed to the problem of insufficient raw material supply or to the problem of present markets being in recession as causal reasons. One participant noted that "proper marketing" was their downfall.

Bid Proposal Program participants were queried about problems with marketing, the nature of these problems and possible solutions. Of the people who responded to this question, eleven stated directly that they did not have any marketing problems. Several of these pointed out that the lack of a suitable, consistent raw material source had been their biggest problem and this was now solved because of their TSL.

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Many participants did, however, state that they had marketing problems. A number of these expressed: the lack of expertise within the company; the expensive learning process (school of hard knocks); that they did not have time to search for new markets as they were a small company; and that, by being inexperienced, it took a long time to develop overseas markets. Others commented on problems typically encountered in export marketing: language barriers, trading tariffs, product acceptance, and trade barriers. One participant noted that "European and Japanese buyers resist buying finished products to avoid duty". Some respondents cited transportation and accessibility problems:

- difficulties in shipping product to customer due to rough handling;
- expensive ocean shipping rates;
- rural location; and
- lack of knowledge regarding the end-users requirement.

Miscellaneous problems included:

- wood borers (insect problems);
- Agriculture Canada regulations; and
- terms of payment and letters of credit from customers.

A number of participants suggested that they needed a "contact" to provide marketing advice at a reasonable cost and that there should be a "clearing house" of wood product opportunities. In terms of export marketing, respondents suggested that trade services should be supplied in consulates (eg. government-funded interpreters at trade missions). Others pointed out that the government of B.C. representatives in foreign countries should be more knowledgable about and promote value-added wood products. Several people referred to the BC Wood Specialties Group and said that they were helpful in searching out new export contacts.

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Administrative Requirements

The administrative burden of the Bid Proposal Program in terms of the equivalent volume requirement and Ministry paperwork was not found to be burdensome by the majority of Bid Proposal Licensees.

Licensees were solicited to provide their view of the "Equivalent Volume" requirement. Sixty four percent answered the equivalent volume requirement works well especially "once a good working relationship is developed with the major forest company". Other comments included: that it was not a problem with good logs and if the major had the right material to supply; that it was only a problem from the primary producer's point of view; and that the Ministry of Forests was flexible.

Licensees that felt the requirement was onerous spoke to problems with poor quality wood and the resulting problems with the conversion factor and difficulty in working out a suitable trade agreement. One person noted that "some relation to value must be considered". Several participants pointed out that the type of wood they required was very difficult to get from the major and, as a large part of their TSL was unsuitable wood, a large input of time was required to negotiate and implement a supply agreement.

The administrative workload required by the Ministry of Forests was not found to be burdensome by 64% of respondents. Many stated that the paperwork involved was reasonable, especially related to the benefit received. As one participant said "the minimal reporting requirements [were] all part of doing business". Several Bid Proposal holders stated that the major either handles or helps with the paperwork. Others noted that they had either hired or already had within their company, qualified personnel to deal with the administrative requirements.

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The 36% that found the requirements burdensome commented that there was too much paperwork that was costly and time-consuming to complete taking valuable time away from business, especially considering the size of volume (small). Several participants noted that dealing with all the agencies is a cumulative burden and that the District Manager should be given more control over the sale.

Open and Competitive Market

The Bid Proposal Program was viewed by the majority of program participants as a better short to medium term policy alternative to an open and competitive timber or log market given the current industry structure and tenure system. Market dominance by the larger major licensees, unequitable tenure arrangements and the relative newness of the value-added sector were the main reasons stated for the preference for an administrative policy approach over the market approach. Comments indicated a recognition that over the longer run a market based system would be less cumbersome and more efficient at allocating raw materials.

The question of competing in an open and competitive market, and whether this system would be preferred to the present Bid Proposal system was asked of the licensees. Participants were asked if they would purchase timber, logs and lumber were there an open and competitive market. On the first question there was a 51%-49% split yes-no to buying timber, on the second question there was a 60%-40% split yes-no to buying logs and on the third question there was a 68%-32% split yes-no to buying lumber.

Comments among those not interested in purchasing timber included:

- that they do not use, or have limited use for, this resource;
- that competition drives price too high;
- that they do not have expertise in evaluating or purchasing timber; and
- that they are not interested in brokering material the company cannot use.

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Those that said they would buy timber commented:

- that they were doing so currently, as for example, with the log home builders where a specific log type was needed and therefore they would use any method to acquire it;
- that everybody, including the majors, should have to buy their timber; and
- that they would purchase timber in a limited volume as this was not where firm's expertise lies.

Participants who would purchase logs on the open market remarked:

- that they would do so if the market was competitive; and
- that they already purchase logs when there is somebody who wishes to sell and they occasionally custom cut logs.

One participant pointed out that his product is high value-added and thus could likely successfully compete with most other businesses in purchasing logs.

Those who would not purchase logs noted that they did not use this type of raw material and that they "want[ed] to keep stable price for raw material and log purchase tends to be area where the raw fibre price is expensive".

Comments among the 68% of respondents that said they would purchase lumber spoke to their preference to buy in the market if the lumber available was suitable to production (i.e. sized, sorted, kiln dried) and consistent in the volume of supply. Some noted that they had always purchased in the market; one person pointed out that "there is a market system in place with fair competition".

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Finally, participants were asked whether an open and competitive timber and log market would be a preferred alternative to the Section 16.1 Bid Proposal Program. Eighty six percent answered "no" to this question. A number of people pointed out that "there will never be an open and competitive timber or log market unless all the companies are equal". Thus, numerous participants felt that the Bid Proposal system was the best alternative "in today's socio-economic environment". Others also pointed out that value-added should be encouraged in any way possible and that the sector must be more developed before it would thrive in a competitive market. One participant felt that "BC would become increasingly an exporter of resources and jobs". Several others noted that whether an open and competitive market would work would depend on where the plants were located and what the unemployment situation was in that district. At least two participants felt that a combination of the two systems, Bid Proposal and competitive market would be the best situation.

The comments made by participants who favoured the open and competitive market scenario included:

- that if it really was competitive, ie. everybody was included, it would be preferred;
- that it (a competitive market) would be possibly less cumbersome; and
- that "this way [ie. with a competitive market], whoever could add the most value could purchase wood needed and thus wood would go to the highest end value use".

Advantages/Benefits and Disadvantages

In this section participants were asked to comment on what they felt were the most significant advantages and benefits, and disadvantages of the Bid Proposal Program. In addition, they were asked to discuss what changes could be made to current legislation and policy to capitalize on the benefits and advantages, and to address the disadvantages. Finally, they were questioned as to whether they would bid on the renewal of their Bid Proposal TSL.

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Advantages

The following is a list of the advantages and benefits of the Bid Proposal Program as described by licensees. These comments are listed according to their prominence as measured by the number of times mentioned:

- Continuity and security of a stable, known wood supply for the small operator is assured;
- The secure wood supply gives the small operator some leverage to acquire the raw material supply they require. "The TSL provided a vehicle for discussions with majors (sometimes forced them to cooperate) and motivation for them to modify their process to adapt to smaller operator's requirements" such that grades of lumber which large sawmills might not normally produce would be available;
- Guarantees or makes it possible to purchase exact raw material requirements in terms of size, volume and species and allowed negotiation of purchase agreements to get the required raw material;
- Cost of raw material is consistent, as well as less expensive. The moderate stumpage rate assures that a "true value-added facility can acquire standing timber at competitive costs";
- Creates/stabilizes employment (particularly in depressed areas) and creates diversified jobs;
- Controlling the resource gives firms more options and they appear more stable to bank, clients, and work force. This helps the small business operator with long term planning and obtaining financing. Better financing was available due to long term supply agreements;

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- Confidence to customers provides the anility to do long term market planning and increases exposure to off-shore markets;

- Make better use of BC's timber supply (diversified and better utilized wood); and

- Promotes (local) the value-added wood industry and promotes development of new products and expanded markets.

The more important suggestions for changes to legislation and policy are listed below:

- Expand the program and re-apportion another 5% of the AAC so that more sales can be made available. The benefits to B.C. public in terms of better use of timber are increased jobs, and increased product value. To facilitate this increased volume will require more Ministry of Forests personnel to assist in serving the needs of small business. The number of Category 1 sales and volume assigned to them (they always go back to major) needs to be reduced;

- Recognize that the program works and ensure a consistent wood supply remains available. This will allow remaners to develop secure places in the export market and create stability and growth in the sector;

- Roll-over the TSL cutting rights where the licensee proves to be successful and in cases where sustained growth has been proven;

- More serious consideration is needed in the evaluation process for existing companies (they are probably more realistic) versus the politically-favoured totally new ventures. Emphasis on preserving existing jobs vs creating new jobs should be incorporated in the program;

- Longer TSL terms (7-10 yrs) are needed;

RESULTS

- Speed up the evaluation process;
- Licensees like the program so far and do not change anything during present down-turn;
- Award timber on highest value-added basis in combination with proven ability. Specific timber sales should be tailored to specific products with demonstrated markets; and
- More technical review of proposals is required. MOF staff need to increase their knowledge of potential timber utilization and suitability for value-added production for planning the Bid Proposal Program.

Disadvantages

A number of the suggestions for change in current legislation and policy were, in turn, restated as disadvantages. This repetition may be interpreted as reemphasis of some of the problems in the Bid Proposal Program. The most commonly expressed views (with regard to disadvantages) are as follows:

- The TSL awards are politically motivated with little regard for economics and the best use of specific timber. The MOF does not have the ability to distinguish fact from fiction such that "whoever has best story" or "idiotic plans based on erroneous value data" receive sales;
- Too many unrealistic bids received sales such that bad operators are putting realistic operators out of the competition. TSL's have been awarded to firms who did not have financial capabilities to achieve proposal;
- The timeframe in which the MOF evaluates proposals and returns deposits is too lengthy. The proposal process also requires too much paperwork;

RESULTS

- The timber offered is often inappropriate for use by the manufacturers. The quality and variety of species in the sales make timber supply agreement negotiations difficult;

- There is insufficient timber available through the present program;

- The TSL term is too short. A minimum of five years is suggested, though ten would be better, and would facilitate long term planning. Short term sales do not warrant making major capital investments;

- The equivalent volume is onerous on sales with a high volume of low grade logs;

- Problem exists on species/grade breakdown in stumpage calculations;

- No serious disadvantages;

- The cost of putting up bid (proposal/deposit) and the uncertainty of the outcome is too onerous; and

- There is no process to appeal apparent poor award decisions.

Again, many of the suggested changes to the current legislation and policy replicate those found under advantages. Those suggestions of more importance include:

- The policy should stop encouraging new plants, and protect existing ones by giving preference to proven operators over new proposals;

- The MOF needs to employ more rigor and expertise in evaluating proposals in order to assess financial and operational feasibilities of proposals;

RESULTS

- Remove the ability for political interference;
- Longer term (5-10 yrs) on TSL's;
- Continue term (automatic renewal) for successful operators and focus on long term (either through bid or some other type of quota) secure future wood supply for successful firms. Cancel TSL's of licensees who fail to meet the conditions of their proposals and those who are unable to exhibit capability to continue operation;
- Cut the bureaucracy in the MOF and reduce time to make decisions (prompt response to bid applications); and
- Allocate more timber to program.

Ninety percent of the participants in the Bid Proposal Program survey indicated that they would renew their bid proposal. Only five respondents said that they would not renew. Two of these firms stated that the TSL's were not economically feasible because of the small sale volume most of which did not meet the company wood profile. Two others explained that they would probably not be operating in the future (business for sale and retirement). The fifth firm did not state a reason.

Several of those respondents who indicated that they would renew did express some hesitation. One participant, for example, stated that he "would not bid unless stumpage were calculated to account for greater cost of manufacturing". On the whole firms appeared to be rather positive about the program. Many pointed out that they needed a secure wood supply, which could be either used directly or as a leverage to assist in obtaining the raw material source they required. The "advantages heavily out weigh disadvantages". Others noted that they were totally dependent on TSL's to obtain secure fibre supply to either stay in operation or to stay at present level of operation.

RESULTS

A number of people expressed their great enthusiasm for the program by saying it was a "great program" and they were "happy to be involved" or that it was "fine until something better comes along". One enthusiastic participant stated that the "program may possibly be the only way that we can be truly independent and develop an industry that will grow with stability". Another individual expressed his belief that "those who do not [ie. renew their bid proposals], will be left behind in securing a steady, long term [wood] supply".

DISCUSSION

Creating a policy and economic climate which encourages value-added manufacturing through remanufacturing of lumber and the production of specialty products is an objective supported by almost all British Columbians. However, there is a clear lack of consensus on how this goal can be achieved.

In July of 1988, the government enacted Section 16.1 of the Forest Act with the stated policy of using timber sale licences to encourage the remanufacture of lumber and the production of specialty products by firms which are in the SBFEP. Targeting independent and smaller firms (firms that do not hold replaceable harvesting licences over 10,000 m^3 AAC) caused much controversy which was compounded by the fact that the volume apportioned to the Bid Proposal Program originated from the 5% volume takeback of Bill 28, undertaken by the government in 1988. The major licensees and their associations vehemently objected to the 5% "takeback" of volume from their tenures and argued that they have been and continue to be involved in the remanufacture of lumber and production of specialty products and therefore, should not have had allowable annual cut, in their words, "expropriated". On the other side of the spectrum small business independent loggers argued that the takeback volume should be apportioned under Category 1 of Section 16 of the Forest Act. The timber would thus be sold on the market with the market ensuring that the logs were allocated to their highest and best end-use. Value-added producers could purchase logs in the market and presumably at market prices because of the value they were adding. The end result of this polarized positioning has been a constant criticism of the Bid Proposal Program some of which is justified but most of which is fallacious.

The survey results reported in the previous section clearly indicate that from the viewpoint of Bid Proposal Licensees the program has been beneficial in promoting and stimulating the production of specialty and high value forest products in the independent value-added sector - a sector of the forest industry that can best be described as globally nascent. For these firms the program is a qualified success enabling them to competitively produce value-added goods for sale across the world by improving the stability of their operations in terms of raw material supply, employment, expansion and marketing.

DISCUSSION

While the Bid Proposal Program has been successful in promoting value-added and specialty production, it is not without its share of issues. This section of the review examines a number of outstanding issues and forwards recommendations where appropriate. Many of these issues are not new and have been the subject of deliberation by the Bid Proposal Committee, Mr. D. Gillespie's SBFEP Review and several other reports.

Value-Added Manufacturing: An Economic Perspective

In terms of economic development it is in the best interests of the province and the forest sector to create a strong independent value-added sector. Several economic priorities are discussed in this section within the context of government policy to substantiate the need for value-added manufacturing outside of the primary sawmill sector.

One of the most persistent issues clouding discussion of the Bid Proposal Program revolves around who should be doing the remanufacturing. Both the Bid Proposal Committee and the Gillespie SBFEP Review forwarded the same two observations:

- The major licensees, some of whom have been and continue to be involved in the remanufacture of lumber and production of specialty products, feel that if special sales are to be made on a value-added basis then these sales should be open to all. This argument runs deeper, however, as the majors feel that government has failed to recognize their efforts in the value-added field and has in effect penalized them by reducing AAC and restricting access to the Bid Proposal Program to joint ventures; and

- Many others have taken the converse position arguing that the majors should be excluded entirely from the Bid Proposal Program. This position is based on the premise that the major licensees already control substantial rights to Crown timber and the primary goal of the program is to provide opportunities for independent and smaller firms who do not have substantial timber rights.

DISCUSSION

Making logical comment on this entrenched dilemma required analysis of the historical development of B.C.'s forest products industry within the context of the old economic order and the new changing global competitive environment.

The historic development of B.C.'s forest industry has followed trends exhibited in other parts of the world at other times. Our forest industry has harvested the ecological capital of the forest (timber resource) and produce wood products thereby creating economic activity and capital. Over time, the forest industry changed the mix of inputs, using capital to replace higher cost labour and timber. The industry bought and applied technology that transformed it into a world class producer of commodity products. During this time the provincial government failed to create the economic incentives for the forest products industry to upgrade into value-added technology needed to maintain employment and afford the rising price of timber.

This situation was compounded by the unforeseeable shift in society's values placing pressure on timber pricing policies. In the 1990's British Columbian's have developed an expectation that the price paid for our timber resource is needed to provide: the tax base to maintain critical government services in the short-run (through both stumpage and income tax); for forest management activities required to meet the twin objectives of economic development and a sustainable environment; and for the social goals of community and social stability. Simultaneously, the forest products sector has experienced frustration and alienation as their ability to influence political and economic policy has been eroded as the public perceives its economic and employment importance is declining.

Empirical evidence supports the premise that public policy failed to provide the right incentives to industry required to capture value-added opportunities. In forest products 75% of exports are in sawn wood, newsprint and market pulp with little export position in value-added sectors such as furniture and fine papers. A high proportion of our lumber exports are concentrated in relatively unprocessed products indicating the B.C. forest economy has failed to upgrade and/or extend

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its traditional competitive advantage into more sophisticated value-added products, technology and markets. This has left our economy, as is evidenced today, vulnerable to commodity price shifts, technology substitution and the emergence of lower cost competitors (usually less developed countries like Chile and Brazil).

B.C. forest products firms have historically enjoyed strong cost positions vis-à-vis their global competitors and thus, were able to meet world prices by following cost-based strategies premised on static views of cost and implementation of technologies designed to reduce marginal unit costs. This was achieved by dependence on high volume throughput of standardized items.

The unfortunate result of this cost-minimizing approach was that capital investments were concentrated in primary manufacturing and have yielded high rates of return to the detriment of capital expansion into value-added processing. This situation has arisen because the marginal efficiency of investment decreases as the amount of investment increases. Therefore capital expenditures into higher-value processes are less productive for primary sawmills, given the already large investment in primary processing. Upgrades into value-added technology secure progressively lower returns often constraining the primary producers capability to invest in secondary processing.

This effect has been compounded through the 1980's by the Federal Government's monetary policy of fighting inflation which has kept the rate of interest high. Investment is only profitable up to the point where the marginal efficiency of capital is equal to the cost of capital and high interest rates have directly lowered the profitability of investment.

In a rapidly changing global competitive environment, B.C.'s traditional strong cost position has been eroded. Foreign competition with cheaper labour and raw materials is forcing our forest products sector to move toward innovation-driven advantages and away from strategies which rely on pure scale to provide competitive advantages. In this new economic climate the success of B.C.'s firms will depend on how well and how fast they adopt new attitudes and re-orient their strategies from

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producing unprocessed to semi-processed products to producing more highly processed and differentiated products. As Porter outlined in Canada at the Crossroads: The Reality of a New Competitive Environment, our economy must continue to upgrade and pursue greater productivity in existing industries by improving products, utilizing more efficient production processes and migrating into more sophisticated and higher value industry segments.

For the major licensees, these new economic realities will require that they concentrate on and rationalize product lines to meet specific market segments. It is unrealistic to expect that all primary mills will have the expertise, capital or existing processing technology to begin producing remanufactured or specialty products. Rather, their focus for upgrading lies in improving and introducing innovative product lines to realize more value and increase recovery. These goals can be achieved in many ways, most of which do not involve secondary manufacturing. Value can be added by increasing the marketable value of a product line through means such as but not limited to:

- sorting species;
- providing select grades;
- marketing specific characteristics, ie. MSR grading, cedar wood qualities, etc.;
- delivering product consistently and on time;
- providing dependable quality; and
- packaging product to customer specifications.

For the sawmill industry adding value does not necessarily mean transforming a product through a secondary manufacturing process.

One of the best opportunities for the primary industry to increase value is to provide the independent value-added sector with a raw material supply. This supply is of specific species and grades capable of commanding a premium price in a domestic market and thus, transportation costs are substantially decreased.

DISCUSSION

Porter also asserted that sustained international competitive advantage results from ongoing improvement and innovation and countries tend to succeed in clusters of industries rather than in isolated industries. These clusters grow and transform themselves through spin-offs and diversification of firms into upstream, downstream and related industries and activities. B.C.'s forest products industry with its historic competitive position lends itself nicely to development of a strong forest industry cluster. This implies a process of co-evolution between the primary sawmills and the independent value-added sector.

In pursuing a process of co-evolution to improve competitiveness primary sawmills must aggressively upgrade and increase productivity in primary processing while the independent value-added secondary sector must continue upgrading into value-added technology and specialized skills to develop more sophisticated and differentiated products. As MacMillan Bloedel Ltd. states in the December, 1991 issue of New Perspectives:

> "the most successful B.C. wood remanufacturers often tend to be smaller companies that can adapt and adjust their production more easily to meet market needs. Frequently, MB finds the best fit is to work as an informal partner with such enterprises - first, by supplying raw material, and then by distributing or marketing the finished products."

In the context of co-evolution, the emergence and establishment of an independent secondary value-added products industry is essential to building a strong provincial economy by providing new capital for value-added technology and strengthening the forest products export cluster, which at present, has limited depth or breadth. In turn, the independent value-added sector can be an important contributor to the long-term health of the primary sawmilling industry by providing domestic demand for primary commodity products, often at a price premium, and by fostering innovation and competition essential to the upgrading process. This is especially important given the trend of rising delivered log costs and the continued pressure for higher stumpage rates required to manage the forest for all values as is being demanded by the public.

DISCUSSION

Ironically, the assertion that cooperation and co-evolution is required between sectors of the forest industry is not new. In 1984, in a report to the Ministry of Forests, Woodbridge, Reed and Associates Ltd. reported that:

> "The very real production cost constraints at the primary sawmill suggest that the development of greater volumes of higher value products may depend on the lower cost remanufacturing sector. Greater coordination and cooperation between the primary sawmills and remanufacturers would overcome many of the constraints faced by both sectors and take advantage of the strengths each can offer."

In conclusion, the Bid Proposal Program has been and will continue to be successful in meeting its stated objective of providing opportunities for the independent value-added producers. This success has not been at the expense of the primary industry and can be seen as beneficial to primary producers over the long-run. Such economic development is in the best interests of all sectors of the forest industry. A strong independent value-added sector is adding to the diversity, depth and breadth, innovation and upgrading of B.C.'s forest products industry - steps which are essential to keeping the industry competitive in a changing global market.

Investment and Diversification

Diversification of the forest products industry is a stated objective of the Bid Proposal Program. Much criticism has been made that no new investment or jobs have been created by the Program. This criticism is largely based on unfactual information and this section will illustrate the success the program has had on creating a diversity of successful value-added operations.

The firms involved in the Bid Proposal Program are very diverse. This diversity is regional as well as sectoral in nature. A number of operations are described to illustrate the different types of value-added operations,

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and the size and scope of these operations. In no way is this section exhaustive in the number of firms described and is not a negative reflection on firms that were not included. Rather, the purpose is to provide a descriptive measure of the types of independent value-added operations the Bid Proposal Program has helped create or maintain. Descriptions are based on visits made during this review.

- Canwood Furniture Factory Inc.

  Located in Penticton, Canwood features a highly trained and diversified labour force in combination with state-of-the-art North American and European furniture making technology. Canwood uses green lodgepole pine lumber and processes this lumber through their kilns, planers, moulders, optimizers and laminators to produce the components for a range of ready-to-assemble furniture. Furniture design is undertaken in-house using leading edge design facilities. Employment at Canwood is about 150 people.

- Cariboo Log Builders Association

  The Cariboo Log Builders are an association of three log house builders with operations based in 100 Mile House. The firms in the Association produce hand-crafted log homes for sale in domestic, U.S. and Japanese markets. Fabrication of these homes is very labour intensive requiring the skills of journeyman builders and thus, employment levels are between 100 - 130 people. These firms have significant capital expenditures in cranes and portable sawmills. Members of the Association are considering the production of milled log homes which will require upgrading of equipment. The log home industry plays a significant role in the Bid Proposal Program and can be characterized by the innovativeness and flexibility required to produce custom designed houses.

DISCUSSION

- Canadian Woodworks Ltd.

  Canadian Woodworks Ltd. of Prince George is a good example of the impact the Bid Proposal Program has had for existing remanufacturers. The award of two TSL's to Canadian Woodworks Ltd. has provided the firm the ability to undertake a two stage expansion to its existing operation with a capital investment in excess of $2.5 million. Applying skilled labour and high technology equipment, the facility produces slider windows, casement windows and patio doors, rails and stiles, laminated blanks, door jambs and moulding stock for markets in North America, Japan, West Germany, Denmark, France, Italy, Spain and Switzerland. The company harvests 100,000m^3 of timber per year and has five year terms on their TSL's. Through supply agreements Canadian Woodworks Ltd. is able to secure its raw material requirements to keep 68 people working for 12 months a year. This is in stark contrast to Carrier Lumber Ltd. located adjacent to Canadian Woodworks Ltd. Carrier harvests 480,000m^3 per year and employs under 20 people in their mill for less than 6 months of the year.

- Jackpine Forest Products Ltd.

  Jackpine Forest Products Ltd. is located in Williams Lake. On the basis of the award of two TSL's with a total volume of 353,700m^3 this company invested over $2.8 million dollars to move out of primary sawmilling and into remanufacturing. The facility employs over 30 people to produce edge-glued products, tight-knot panels, furniture components, window and door stock, mouldings, pallets, railings and briquets. Jackpine Forest Products Ltd. has a working supply agreement for green rough lumber with Lignum Ltd. This has resulted in a loss of approximately five jobs on the planer at Lignum but over 30 jobs have been created by Jackpine. One of Jackpine's major markets is for door jambs and brick-moulds in the lower mainland. This market was traditionally occupied by American companies. The Bid Proposal Program has provided an opportunity for a B.C. firm to successfully compete against foreign competition in a domestic market.

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- Milestone Wood Products Inc.

  Located in Armstrong, B.C., Milestone Wood Products Inc. is a newly constructed window scantling plant with a capital expenditure of over $7 million. This plant has two unique features - backward integration and Rosenheim certification. The plant design includes a specialty sawmill at the front end to make Milestone capable of primary breakdown and allowing them the flexibility of operation - Milestone can use both logs or lumber as a source of raw material. The plant design specifications and equipment are such that the precision quality of their output products are high enough to receive Rosenheim certification. This includes a quality control laboratory, climatically controlled work areas and the latest German technology. Milestone is providing training and employment for about 66 workers and will produce laminated window scantlings for West Germany.

- Kiska Trading Ltd.

  Kiska Trading Ltd. of Chemainus produces high quality windows and doors, window and door stock, cutstock and coreblocks, Japanese housing components, flooring and sound board. Their markets are both domestic and overseas. The award of a Bid Proposal TSL induced Kiska to undergo a $650,000 plant expansion including new dry kilns, an optimizing saw, a planer infeed and a laminating machine. Employment was increased by 14 - 17 jobs.

This is only a small representative sampling of the level of investment and diversity of operations found in the independent value-added sector of the forest industry. Much of this diversification is due to the operating conditions and investment climate created by the Bid Proposal Program.

The criticism that the Bid Proposal Program has not promoted capital expenditure investment in new and existing plants is negated by the survey results. The results show 87% of Bid Proposal TSL holders have

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completed expansion of their operations in accordance with their proposals. This trend was confirmed by visits to operations undertaken during this review.

With some 500 firms identified as being remanufacturers or specialty producers in a recent B.C. Trade and Development Study and 300 proposals not being successful in obtaining Bid Proposal TSL's and in light of the positive impact on investment of the Bid Proposal Program, it seems appropriate that the Ministry of Forests should undertake a close analysis of timber requirements of the independent value-added sector with the objective of providing the sector with more volume. This is reflected by consistent and repeated calls for more volume by current Bid Proposal Licensees.

During this review it became apparent that the success of individual firms relied on a number of shared factors. The few firms that were experiencing critical problems often lacked these characteristics. Common themes of success included:

1) The value-added process focused on a narrow range of products. These product lines included a family of saleable falldown products. By "sticking to their knitting" both cutloss and shrinkage were kept to a minimum often in spite of the fact that the reman process started with the wrong size input raw material;

2) Known markets existed for the main product line as well as for the falldown products;

3) Appropriate and specific technology was being applied in the production process. As this industry is still in its infancy, firms often lack the capital to invest in the latest technology. Rather, these companies have relied heavily on innovative approaches to the production process. The Bid Proposal Program has increased the amount of sophisticated equipment such as computer decision making scanners and optimizers and automated machinery.

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4) The labour force employed was both highly trained and flexible. Remanufacturing requires careful ripping, sawing, defect removal, edge-gluing and finger-jointing of lower valued lumber to create higher valued products of unique and unusual size. This process requires a high degree of training for each individual across a number of processes within the operation. The same workforce qualities are needed for the production of specialty products and log homes.

5) Firms were adequately financed to ensure that capitalization and cash flow demands were met during market cycles. Several of the failures or cancelled licences within the program can be directly attributable to inadequate financing. In these instances the awarded TSL was considered a capital generator needed to solve immediate cash flow or capitalization requirements. The need for proper financing was reinforced by the survey results. Current licensees reported that TSL's made it easier to deal with the financial community because their operations were viewed as being more stable. However, loans could not be secured solely on the strength of a TSL.

6) Management skills were required in three distinct areas - wood/raw material procurement, mill supervision and marketing.

7) Location and access to raw material supplies was essential for the remanufacturing firms.

These factors may appear to be obvious, however, the Ministry of Forests evaluation process does not give direct consideration to points 2, 4, 5, 6 and 7 above.

Evaluation Process

The evaluation process with specific concern to how it would be applied to Bid Proposals available for re-allocation was a common theme for discussion during the review. Discussion of this matter is somewhat

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outside of the Terms of Reference of this study but because of the repeated concern by licensees within the program it is necessary to address the issue.

The evaluation process remains a controversial subject with two critical policy questions:

- Does the evaluation process adequately identify the factors needed to award the sale to the best firm; and
- Is the current evaluation criteria adequate or appropriate for second generation TSL's (A second generation TSL is defined as a new TSL made possible when AAC is freed up by the expiration of the term of a previously awarded TSL).

The current Ministry of Forests evaluation process uses the highest value-added per cubic metre as the surrogate measure for its economic and social policy objectives. Consideration by the Ministry for the real viability of products and their markets, the level of management and employee skills, location and firm financing is not directly required in policy. The first three of these factors can be indirectly determined (if the appropriate questions are asked) during the technical evaluation of a proposal. It was repeatedly suggested during this review that the Ministry of Forests did not have the capability to effectively evaluate the technical aspects of proposals and that for the integrity and credibility of the entire program they should retain professional assistance for technical evaluations. This review concurs with such a suggestion and recommends that the Ministry of Forests include qualified professionals to assist in the evaluation of the technical portions of each Bid Proposal. This recommendation is contrary to the recommendation of the Bid Proposal Committee.

With respect to the fourth factor of financial stability the Timber Harvesting Branch has clearly enunciated that the SBFEP is designed to provide opportunity for small firms to make money or lose money. Therefore, the bureaucracy should not make, and may not be capable of

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making decisions on the financial viability of any particular proposal. While this is a noble philosophy it departs from the Ministry of Forests responsibility to manage and utilize Crown timber, manage for long-term economic and social benefits and encourage a world competitive timber processing industry. Most of the small number of failures within the program can be directly attributed to poor financial position of Bid Proposal Licensees. The evaluation process is inadequate in the assessment of the financial positions of potential Bid Proposal Licensees. A more rigorous examination of financial considerations is recommended for the evaluation process.

Being non-renewable licences with an average term of 5 years means that many of today's TSL's will expire in the period 1994 - 96. How second generation TSL's are awarded is of concern to current licensees. Failure to provide a replacement licence may place current Bid Proposal licensees in a precarious position which may result in plant closures, job loss and other economic and social dislocation. The Ministry of Forests' current position on this is that the second round of Bid Proposals will be awarded through a competitive process and the primary evaluation criteria will remain the amount of value-added proposed and the bonus bid. It is also their hope that the business and fibre supply arrangements established by the original Bid Proposal will continue after a TSL expires alleviating the potential problems identified above.

In May 1991 the Bid Proposal Committee recommendations for more flexibility in the decision-making process for the award of Bid Proposal Sales was adopted by the Ministry of Forests. In cases where the proposal with the highest value-added is not clearly superior to all other proposals, the Minister of Forests can use four subjective factors (existing plants, local plants, employment and new products) to award the licence. This new policy does not directly address evaluation criteria for second generation TSL's.

Gillespie's SBFEP Review stated that many submissions argued that Bid Proposal winners were acutely aware of the fact that the sales are non-replaceable and most of them have developed working arrangements with the major licensees for a supply of sawn lumber and that these arrangements will survive the expiry of the Bid Proposal term. In this

case, Bid Proposals would continue to be awarded to the firm with the best proposal, to encourage firms to continue to add the most value to the fibre. Presumably, existing firms would hold a competitive advantage in bidding for second generation sales.

Not surprisingly current Bid Proposal Licensees do not agree with current Ministry policy or Mr. Gillespie's conclusions. They feel that if they live up to the terms and conditions of their proposal and licence then they should be awarded another TSL of an equivalent size to the expired licence. They cite employment, capital expenditures, proven performance and community stability as factors that should be considered in the evaluation process for re-awarding TSL's.

The current evaluation process is consistent with the policy objective of the Ministry of Forests to award Bid Proposal Licences through competition. In the first three years of the program this objective has proven effective in apportioning 11 million m^3 of volume. In the absence of any strategic planning initiatives the current evaluation process may be the best method of awarding licences. However, given that timber supplies are declining and it is unknown what the impact on AAC levels the recently announced land use planning initiatives and the Chief Forester's timber supply review will have, it behooves the Ministry of Forests to take a much more pro-active planning role in awarding second generation Bid Proposal Sales. It is the Ministry's mandate to encourage a world class timber processing industry and this may require that the Bid Proposal Program objectives and evaluation process be modified to reflect changing circumstances. This may mean tempering the objective of providing an opportunity for all firms through competitive sales with the realization that policy must move beyond laize-faire planning to incorporate the strategic directions required to promote and sustain value-added and specialty manufacturing.

Strategic Planning

The Bid Proposal Program has successfully created a short term climate that supports investment in the development of value-added products, markets and process technology and the development of highly trained

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human resources. The challenge for the Ministry of Forests is ensuring that Bid Proposal policies continue to support sustained development, upgrading and innovation in the independent value-added sector.

One mechanism by which the Ministry of Forests can meet the challenge of sustained development of the value-added sector is through strategic planning. The Bid Proposal Committee recommended that the government and industry would benefit from a comprehensive study of remanufacturers and specialty producers in B.C. and the SBFEP Review called for a thorough economic analysis of the Bid Proposal Sales. The B.C. Trade and Development Corporation is undertaking a comprehensive reporting on baseline factors such as identification of firms involved, the raw material inputs, raw material available, markets and labour/training. A parallel strategic planning initiative is required to define the government's economic development goals and objectives for the independent value-added sector. It is suggested that these goals and objectives must focus on building on the existing strengths within the value-added sector. This implies a re-examination of the evaluation criteria and TSL award policies especially for second generation TSL's.

While the independent value-added sector is in its infancy when compared to its global competitors it has several strengths on which to continue building. Pre-eminent on this list is the regional clustering of the existing industry. The historical evolution of the value-added sector has seen firms locate in areas where there are a number of large primary sawmills providing raw material inputs. Sourcing this raw material supply has been a chronic problem for remanufacturers and this provided further impetus to locate in areas with a high number of sawmills. Suitable and favourable access to labour, transportation links and support industries were also factors. Three regions developed as clusters of remanufacturing activity - the Lower Mainland/Vancouver Island, the Okanagan Valley and Prince George. The implementation of the Bid Proposal Program has strengthened the development of these clusters while providing opportunities for newer remanufacturing enterprises to become established in other parts of the Province.

DISCUSSION

This report suggests that future economic development policies for the remanufacturing sector should focus on strengthening existing industry clusters. In economic terms, strengthening existing secondary industry clusters creates a number of competitive advantages. Remanufacturers located in proximity to primary sawmills can reap the benefits of short, close geographic lines of communication, quick and constant flow of information, ongoing exchange of ideas and innovations and access to and creation of local supporting industries capable of cost-effective, high quality inputs and services. This creates a powerful spillover that enhances and effects innovation and competitiveness and creates local rivalries also key to spurring the innovation and productivity needed to compete in the world marketplace. Creating this competitive environment can provide long-term economic advantages and stability for the sector and the corollary social benefits for the communities in which they are located.

Government policy is often guilty of trying to create economic equalization between regions and the Bid Proposal Program is no exception. In the case of new firms in locations not traditionally involved in remanufacturing, it is too early to determine if their emergence is based on a false economy - the award of a Bid Proposal TSL. Suffice it to say that these firms tend to be in isolated locations with a limited number of raw material suppliers and a smaller available labour force. These factors will place a burden on the ability of these firms to successfully participate in a highly competitive world marketplace. The policy of creating local employment through Bid Proposal Sales must be reviewed within the context of strategic economic planning to determine what will be in the best long-term interests of the Province.

On the basis of findings in this review it is recommended that second generation Bid Proposal Sales be used to take care of existing value-added firms first, especially those in well established locational clusters, and provide opportunities for new firms second. This approach will require the development of a strategic plan for the sector to provide a context for the development and award of new sales. Also required will be an audit and performance assessment strategy to determine those

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firms who have lived up to the commitments of their proposal and licence requirements. Those licensees who have performed have met the goals and objectives of the Crown and should be given recognition of this during re-award of Bid Proposal volume. Furthermore, the evaluation procedure for second generation sales should be modified beyond the changes implemented in May 1991 to incorporate past performance and the strategic needs of the Province (as outlined in the strategic plan for the value-added sector). On this point there was consensus among Bid Proposal licensees.

The other benefit of a strategic approach to the Bid Proposal Program is better identification and development of TSL's which are more appropriate to the needs of the remanufacturer. The size, species and grade content of Bid Proposal Sales has been criticized for not reflecting the end users' needs. This has made trading for equivalent volume more difficult. Strategic planning can allow the Ministry of Forests to anticipate the future needs of the value-added sector within the timber profile constraints of the SBFEP as a whole. Not only will this planning benefit the remanufacturer and the primary sawmills with supply arrangements but will also provide a more developed planning framework for other resource agencies.

Strategic planning complete with a revised evaluation process does not imply direct award of TSL's or quota. Rather, it means tailoring the program to meet identified needs in the independent value-added sector within the context of provincial economic and social objectives. Volume can be apportioned by bid proposal, to existing and/or new firms as needs are identified, allowing the Ministry of Forests to maintain the policy objectives of providing opportunities for independent and smaller firms and awarding licences through a competitive process. The mechanics of achieving these goals could include select invitations to bid or award criteria for individual sales tailored to identified regional economic development needs. These are practices commonly employed by government when contracting out work.

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Unfortunately, there is not enough timber supply to meet current forest industry demand and manufacturing capacity and this places the Forest Service in a position of having to judiciously, fairly and strategically apportion and award timber cutting rights. A strategic plan provides context and forethought in which these tough decisions can be reconciled.

Other Issues

More Volume

The survey results and interview process gave clear indication that the independent value-added sector, surveyed in this review, could increase production by more than 100% of current output but the limiting factor was availability of raw material. This does not include raw material requirements for the 400 or so value-added firms not holding Bid Proposal Sales. Additionally, previous market analysis indicates there is no realistic constraint by the marketplace on the expansion of the remanufacturing sector in the medium term. The consensus opinion of Bid Proposal Licensees was that more volume is required in the Program.

Gillespie recommended that there be no substantial changes in the allocation of AAC within the SBFEP. The Bid Proposal Committee recommended that changes to the apportionment should be made after careful consideration and that new volume arising from transfers and cut control requirements not be automatically apportioned to a specific type of SBFEP sale. Rather, the apportionment should consider the local demand situation.

Bid Proposal Licensees do not share these two views and state that they provide the highest level of employment per cubic metre of wood and diversify the industry. These are two objectives of the Crown and thus more volume should be allocated to the Bid Proposal Program. Furthermore, they believe more timber should be removed from the major licensees to supply the independent value-added industry. They argue that through supply agreements the primary sawmills eventually

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get back the volume and the impact on jobs is minimized. A Bid Proposal Sale provides the value-added producer the ability to secure volume to stabilize their operations and to negotiate better species, grades and sizes for their raw material supply.

This review strongly advocates that the competitive success of the forest products industry will ultimately rely on the co-evolution of a healthy primary sector working cooperatively with the independent value-added sector. It is unavoidable that any solution to balance timber supply with manufacturing demand (in the face of probable timber supply falldowns) will require changes in the tenure system. It is suggested that the long-term health of a solid wood products industry, including the value-added sector, will require that the current administrative system of apportioning the timber resource be incrementally changed to provide a transition to a market approach. Such an approach must blend both administrative and market mechanisms to supply raw material supplies, to meet the social objectives of employment and community stability and to continue to provide incentives to drive productivity and innovation.

The survey results indicate that at present Bid Proposal Licensees would prefer TSL's to an open and competitive market. These results reflect a misunderstanding of the survey question combined with the limitation of many licensees to imagine a market system in which they would have an equal opportunity to compete. An open and competitive log market was discussed at length in the interview process and the majority of Bid Proposal Licensees agreed that they would prefer to operate in a competitive environment rather than the convoluted system of timber harvesting and supply agreements presently offered under the Bid Proposal Program. The majority also see that Section 16.1 as an essential transitional mechanism to assist them in their enterprises. A rough approximation of the timeframe envisioned by licensees to provide a transition to a market system was 10 - 20 years.

Section 16.1 Bid Proposals are proving to be an effective transition vehicle for supplying raw material to the independent value-added sector. While calling for more volume for the Bid Proposal Program over the

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short-term, participants in the program understand that their best opportunity to secure more raw material over the long-term is through the market place. As the Select Standing Committee on Forestry reported in 1991 "forest tenure arrangements, as they are currently structured in British Columbia, limit the scope for competitive market driven adjustments that would otherwise direct the flow of logs to their highest valued end use." Value-added firms stated they could compete for the raw material if given equal access to the resource.

SBFEP Timber Supply

Many of the submissions to this review pointed out the failure of SBFEP Category I sales in providing raw material for the independent value-added sector. The main contention was that Category I sales were surrogate bid by major licensees in order for them to make up shortfalls between their quota wood and mill capacity. The process of surrogate bidding in which a SBFEP registrant bids on a timber sale as the undisclosed agent of a major licensee has had the impact of driving bonus bids significantly higher. These higher bonus bids reflect of the extreme imbalance between timber supply and sawmill capacity in some regions of the province which has heightened competition for incremental wood from the SBFEP. Major licensees bid up Category I sales and "average down" this higher priced wood against their lower cost quota wood. This option is not available to specialty mills or Category II mills which hold insufficient tenure to average down against. Thus, these important raw material suppliers to the remanufacturing industry are constrained from being consistent suppliers.

In his SBFEP Review, Mr. Gillespie recommended that any attempt on the government's part to curb surrogate bidding would have little success and that no changes be made to address the surrogate bidding question. Such a recommendation may very well hold true but the problem persists and has effectively reduced raw material supplies to the value-added sector in some regions of the province.

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Although not confirmed it was suggested during this review that some major licensees have entered into joint-ventures with value-added firms as a less expensive and more certain means for securing incremental volume through Bid Proposal Sales. No evidence was presented to confirm these assertions and it is somewhat irrelevant as joint-ventures are allowed in the program.

Surrogate bidding will continue to be a controversial issue in both Section 16 and Section 16.1 of the SBFEP. The only available and realistic option to reduce surrogate bidding is to decrease the volume apportioned to major licensees such that they cannot average down the cost of their incremental wood. This option would level the playing field and allow all firms to compete fairly for the timber resource.

Equivalent Volume

The equivalent volume requirement in Bid Proposals was seen as a possible disincentive for major licensees to participate in the program, particularly on the Coast. Bid Proposal Licensees were canvassed during the review to examine if the equivalent volume was problematic. Most respondents indicated that this requirement was not a major problem and some firms indicated that it was crucial to levering as much lumber as possible from the Bid Proposal Sale. It can be concluded that the Bid Proposal Program has been successful in increasing the supply of lumber to remanufacturers and the equivalent volume requirement is part of the reason for the success.

Despite this success the fact remains that the logs from a licence can only produce a small quantity of lumber of the species and grades which a remanufacturer requires and, since the equivalent volume exceeds this greatly, sawmills must make up the deficiency from other sources. This problem could be partially remedied by tailoring TSL's more closely to the species, grade and volume requirements of the value-added producer. This could be achieved within the framework of a strategic plan. The

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other less desirable option available is to use a different measure in the evaluation process such as jobs created, return on investment or trade equal value for equal value. These options may forego the leverage the current policy provides.

The equivalent volume dilemma serves to highlight a common misconception about value-added. Many people believe that the rate of harvest can be reduced and that job loss can be avoided by creating more new jobs in the employment intensive value-added wood products industry. This argument fails to recognize that only 10-20% of the volume from a stand of timber is suitable for lumber remanufacture (percentage varies from region to region). Therefore, a large volume of timber must be milled to produce enough raw material for remanufacture. Reductions in timber volume available to breakdown mills will result in volume reductions available to the value-added primary sector.

Bid Proposals: Are They Small Business

The appropriateness of placing the Bid Proposal Program within the SBFEP was frequently brought up during this review. Many suggested that value-added operations represented considerable capital investment and was not small business. This was causing a perception problem with their suppliers and customers conveying an image of gypo operations and instability. It was also suggested that having Section 16.1 sales in the SBFEP was causing confusion and resentment with Category I and II registrants in Section 16 because of perceived competition between the two programs for the same woodpile.

Conversely, many submissions stated it was beneficial to be in the SBFEP because this relieved them of the responsibilities for sale development, basic silviculture, and administration. All tasks in which remanufacturers have no developed expertise. Thus, paying development and silviculture levies was the preferred option. Others stated that the joint-venture provisions of the SBFEP regulations allowed sourcing of capital from major licensees while restricting access and control by the majors and that this was beneficial.

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Given that the policy objectives of the Crown are to encourage production of specialty and high value forest products and provide opportunities to independent and smaller firms, it is recommended that the Bid Proposal Program remain part of the SBFEP. It is suggested that the Ministry of Forests address the perception problems of the Bid Proposal Program through additional promotional effort. This effort could include some type of directory or brochure describing the program and the diversity of firms and products produced by the licensees and that distribution of such a directory be both domestic and international. A cooperative effort between the Ministry of Forests and the B.C. Trade and Development Corporation may be appropriate.

MOF Planning

One of the common complaints about the Bid Proposal Program and the SBFEP in general is the poor quality of timber sold under the SBFEP compared with timber harvested by the major licensees. The SBFEP Review reported that "the quality question is under control, and that the Forest Service is attempting to ensure that timber offered under the SBFEP is of a like profile and value to that harvested by major licensees." This conclusion is likely true, however, the perception remains the Bid Proposals are "guts and feathers" sales.

One possible solution to this perception problem would be to increase and formalize Bid Proposal Licensees participation in the planning process. There is very poor representation for Bid Proposal Licensees in current Ministry of Forests planning processes and often the Forest Service represents small business interests. Excluding Bid Proposal Licensees from the planning process has perpetuated the perception that the Bid Proposal Program is not getting good timber. It is recommended that the Ministry of Forests explore ways to include Bid Proposal Licensees in District planning processes, Timber Supply Area planning processes and other ad hoc committees appointed by government. Such a move could foster the understanding and local involvement in timber supply planning for the value-added sector. It is also noted that the strategic planning initiative recommended earlier could help in reducing misconceptions surrounding timber quality.

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Taxation

In the upcoming constitutional talks the Provincial Government should address as a priority the restructuring of capital gains taxation within the context of an "economic union". For the value-added industry a restructured tax approach would provide strong incentives for long-term investment in production assets (training, technology, machinery and equipment) in their plants.

Training and Education

Survey results indicated that most value-added firms are engaged in extensive in-house or on the job training programs. There are few options for technical training or indentured apprenticeships for employees of value-added firms needed to upgrade worker skills and increase productivity and innovation. The survey indicated that workers with no experience were often preferred over workers with sawmills experience because sawmill worker experience was based on the philosophy of high volume throughput at the expense of quality. It is recommended that the Government look at the feasibility of establishing or funding training and/or retraining programs for remanufacturing skills and the establishment of an apprenticeship program. One of the objectives of the Government should be to create a highly trained and highly skilled workforce capable of economically producing quality value-added products and consequently, creating the opportunity for high wages and a continuation of the Province's high standard of living.

SUMMARY OF FINDINGS

The Bid Proposal Program has effectively encouraged and promoted value-added and specialty product manufacturing for independent value-added firms. For these firms the program is a qualified success enabling them to competitively produce value-added goods for sale world wide by improving the stability of their operations in terms of raw material supply, employment, financing and expansion and marketing.

The Bid Proposal Program has served as a catalyst to creating greater coordination and cooperation between the primary sawmills and the independent value-added sector. The program has resulted in the emergence of a more diverse value-added sector and fostered innovation and upgrading. The co-evolution of a changing primary sector and the emerging value-added sector will be critical in stabilizing and increasing the competitive position of B.C.'s forest products industry in the future.

During the three years of its implementation the Bid Proposal Program has successfully achieved the policy goals identified for the program by the government. The Bid Proposal Program has: promoted and encouraged economically viable operations in the independent value-added sector; created structural, product and market diversity in the forest products sector of the provincial economy; reduced B.C.'s reliance on commodity products; created or maintained regional employment; and fostered community and social stability.

The Ministry of Forests faces future challenges in developing and maintaining the independent value-added sector. These challenges will centre on how sales are replaced and how to provide more volume to the value-added producers. Suggested approaches to these issues include: reviewing the goals and objectives of the program; reviewing the evaluation process; and increasing strategic planning initiatives.